



Update on Budget Outlook

Cabinet Meeting
November 25, 2002
Mary Lassiter



A Quick Review

- FY 01 budget shortfall of 2.68%
- FY 02 budget shortfall of 9.41%
- FY 03 & FY 04 – No Budget
- FY 03 – Spending Plan Requires Revenue Growth of 6.2%
- FY 04 - HB 1 Requires Revenue Growth of 4.1%



Review of Budget Shortfalls

- FY 01 – No Cuts to Education

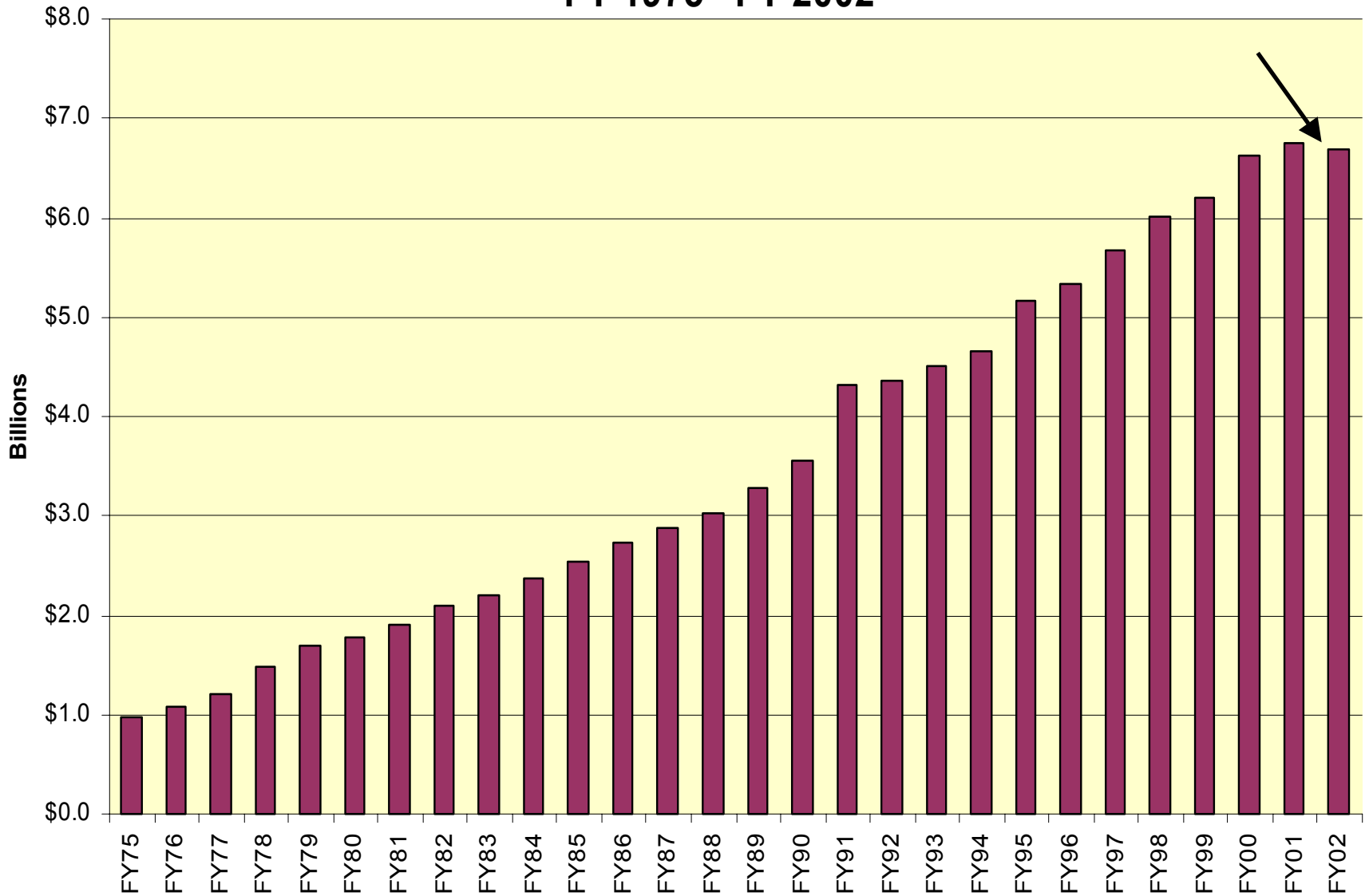
	(\$ Millions)
■ <u>Total Shortfall</u>	<u>\$185.4</u>
■ Cuts to Agencies	\$32.7
■ Fund Transfers	\$29.3
■ Debt Service	\$49.8
■ Budget Reserve Trust Fund	\$38.8
■ Lapses	\$26.0
■ Other	\$8.8



Review of Budget Shortfalls

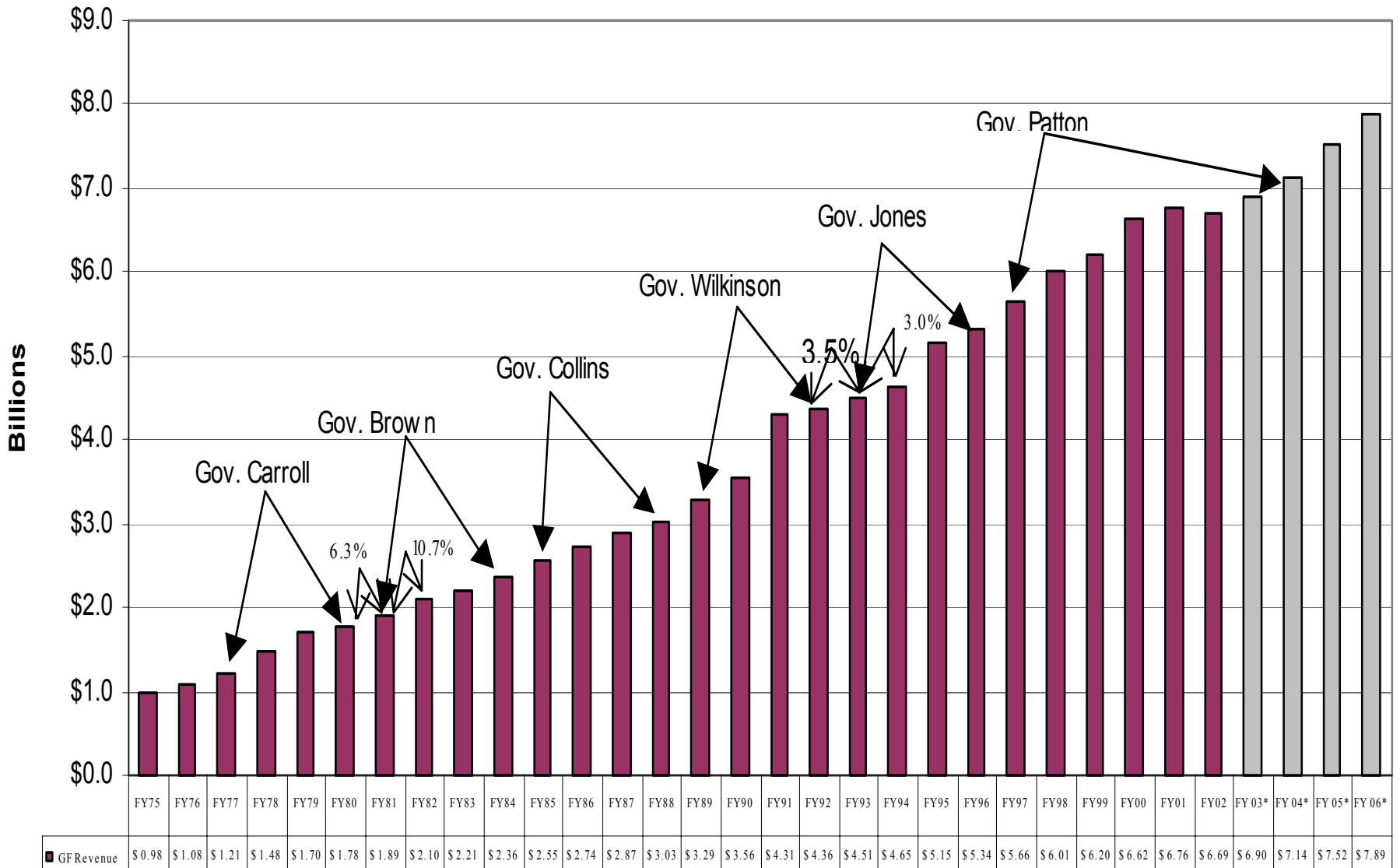
- FY 02 – No Cuts to K-12 / 2% Cut to Postsecondary (\$ Millions)
 - Total Shortfall \$687.1
 - **Cuts to Agencies** **\$231.5**
 - Fund Transfers \$97.3
 - Debt Service \$112.9
 - Budget Reserve Trust Fund \$240.0
 - Other \$5.5

General Fund Receipts FY 1975 - FY 2002



General Fund Receipts

FY 75 - FY 06*



*FY 03 - FY 06 Estimated by CFG 11/15/02

Numbers include Tobacco Receipts



Consequences of Budget Reduction Actions

- Depleted the Budget Reserve Trust Fund
- Captured Funds Intended for Specific Uses Which may Have Long Term Implications
- Resulted in a Downgrade in Our Credit Rating from Standard & Poor's

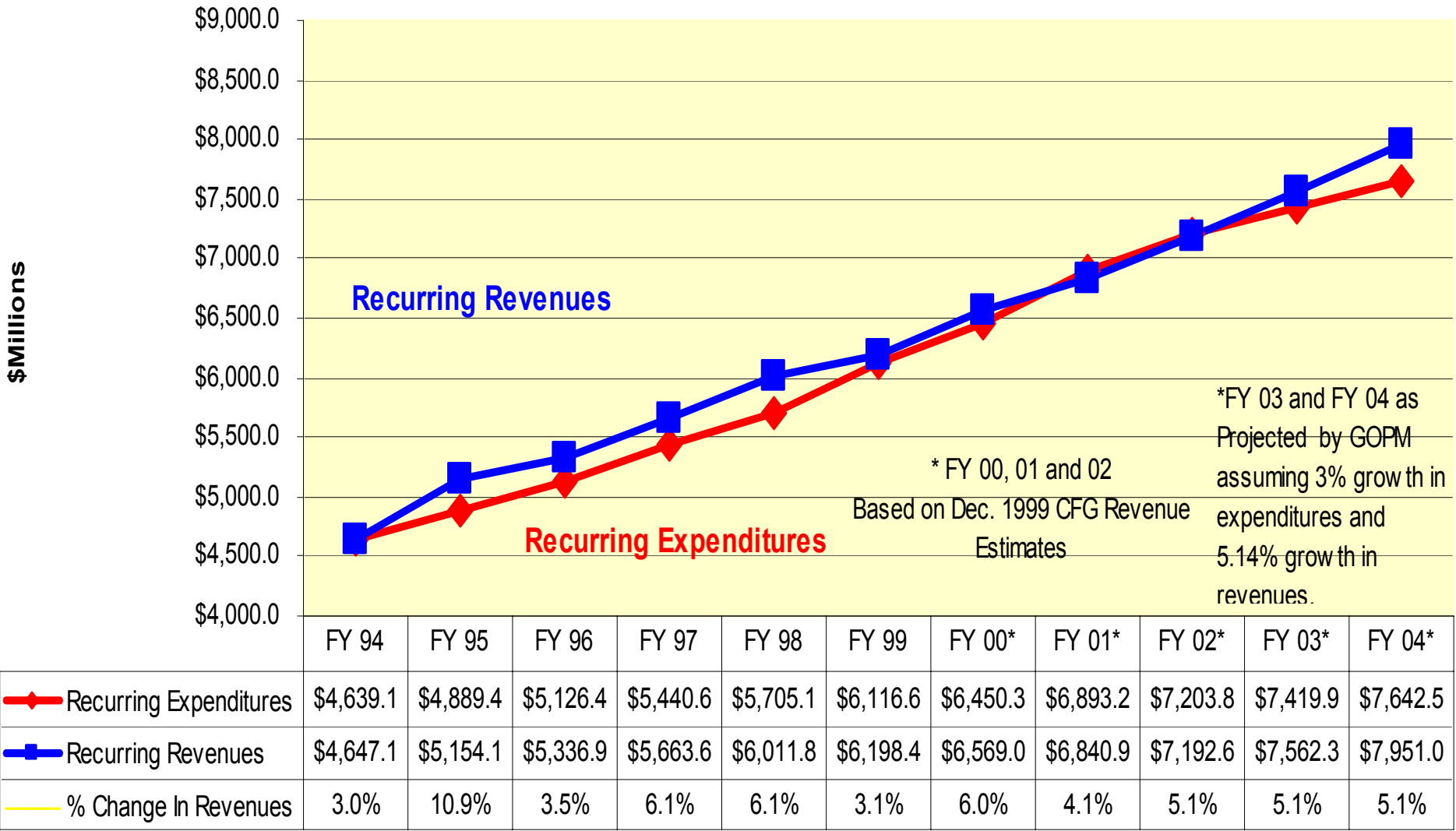


FY 03 Receipts To Date

- 6.8% Growth over FY 02 through Oct.
- Need 6.2% Growth for entire FY 03 to meet Spending Plan Expenditures
- Tax Amnesty Clouds the Picture
 - \$107 Million in Receipts

Graph 1

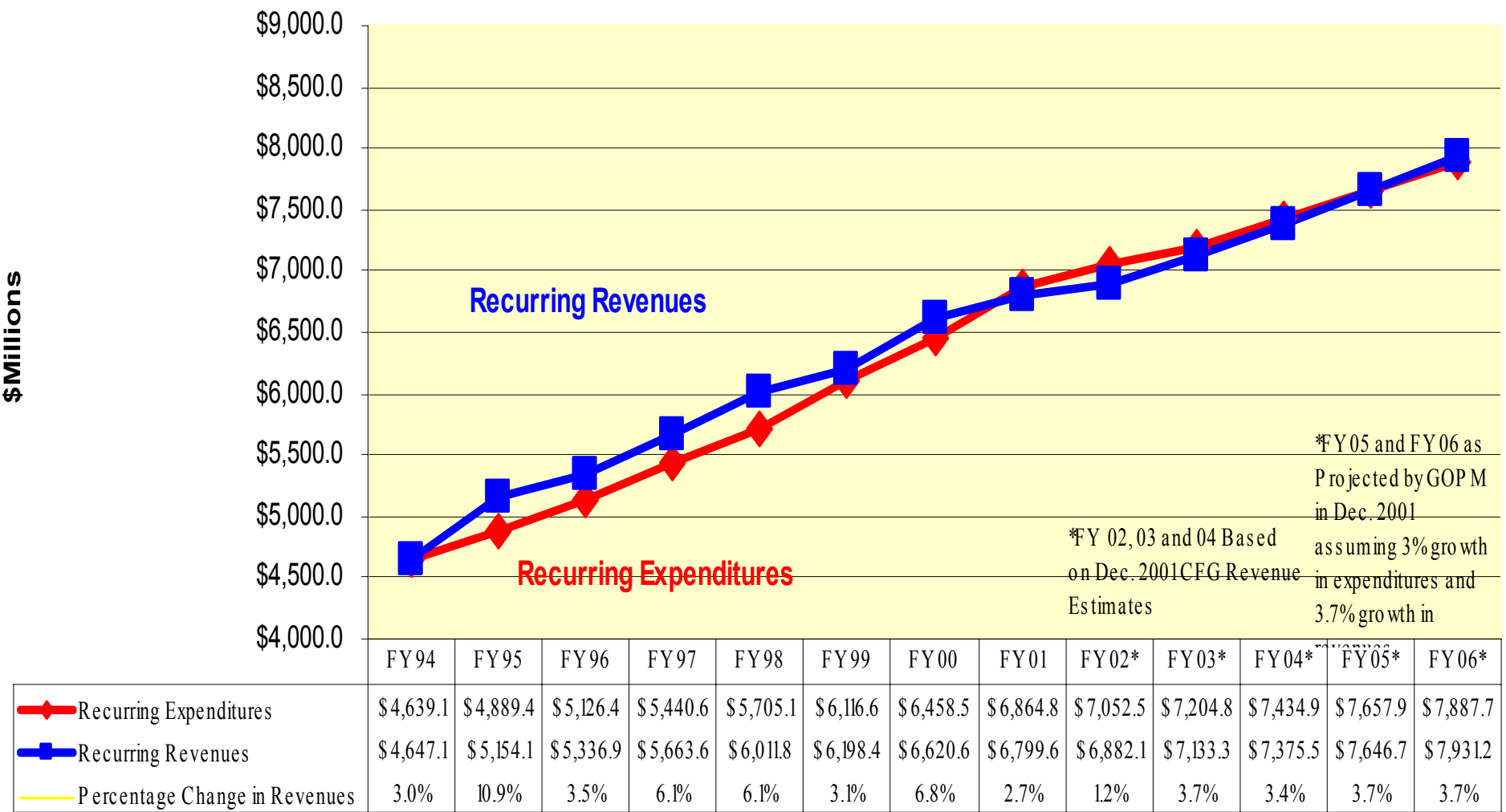
Recurring General Fund Revenues and Recurring Expenditures (FY 94 - FY 04)
As Estimated In December of 1999
(Actual amounts from FY 94 - FY 99. Estimates from
FY 00 - FY 02. Projections for FY 03 & FY 04)



Graph 2

Recurring General Fund Revenues and Recurring Expenditures (FY 94 - FY 06)
As Estimated In December of 2001

(Actual amounts from FY 94-01. Estimated amounts from
FY 02-04. Projected amounts for FY 05 & FY 06)

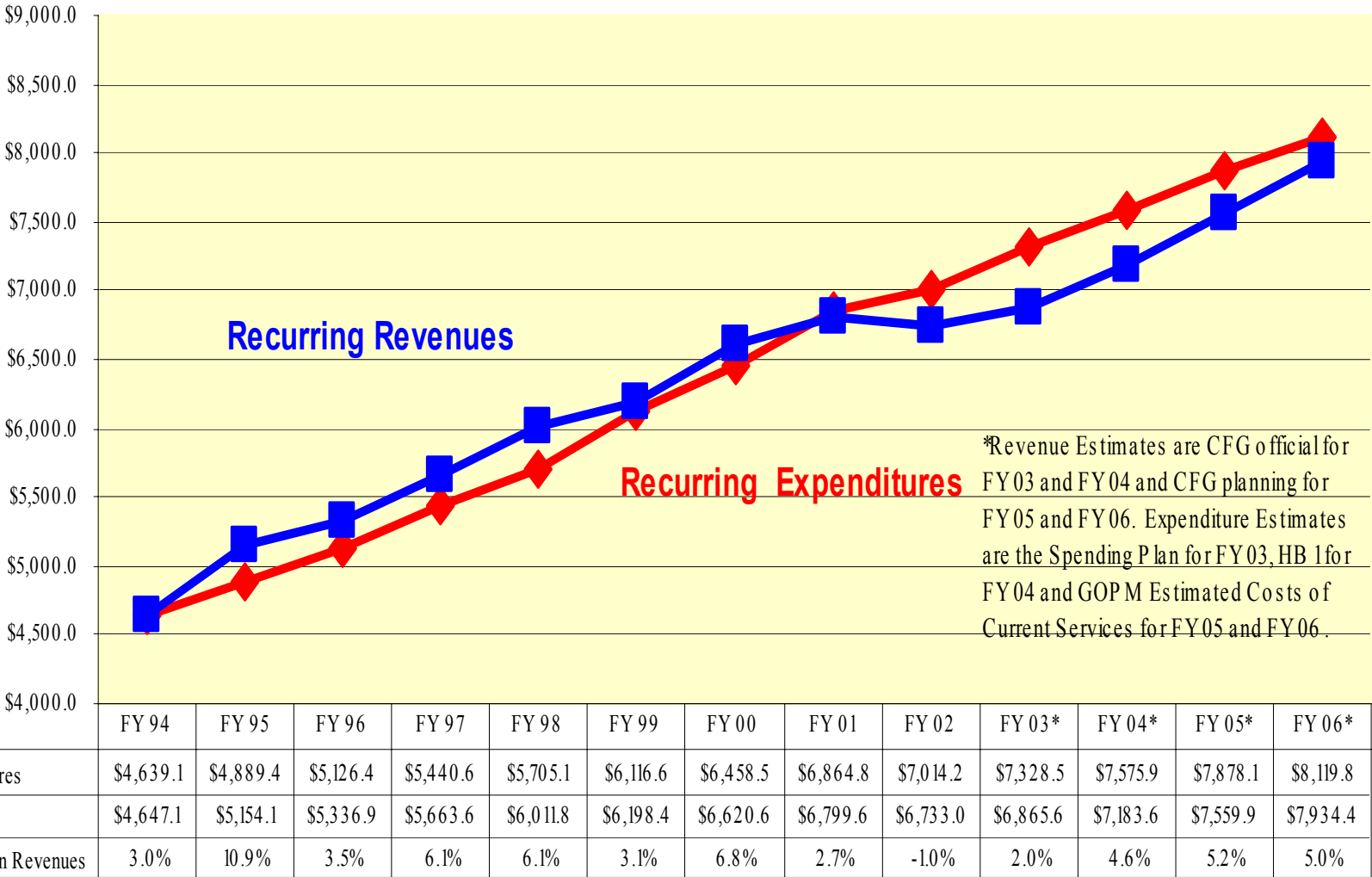


Graph 3

Recurring General Fund Revenues and Recurring Expenditures (FY 94 - FY 06)

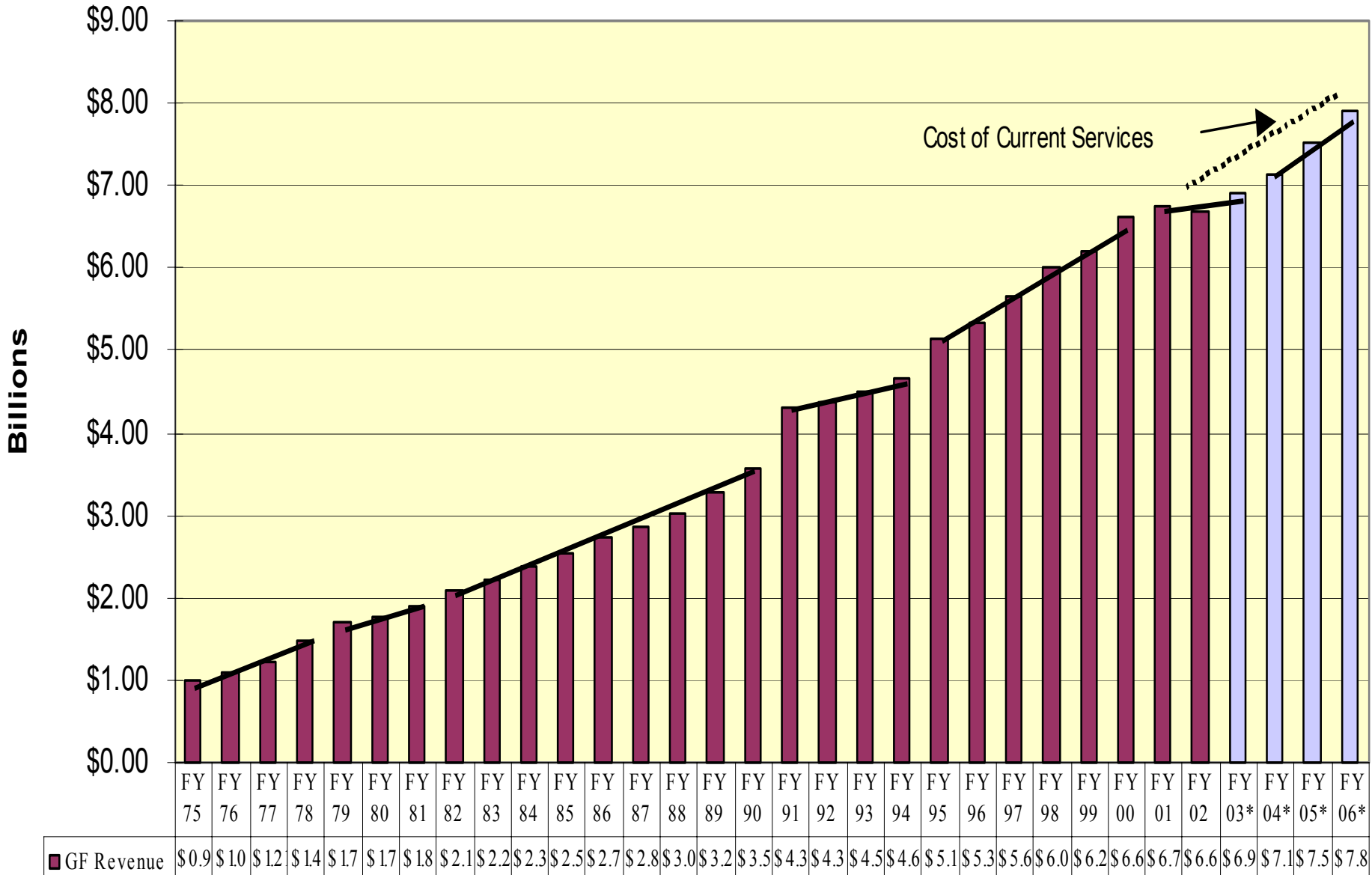
As Estimated In November of 2002

(Actual amounts from FY 94-02. Estimated amounts from
FY 03-04. Projected amounts from FY 05 & FY 06)

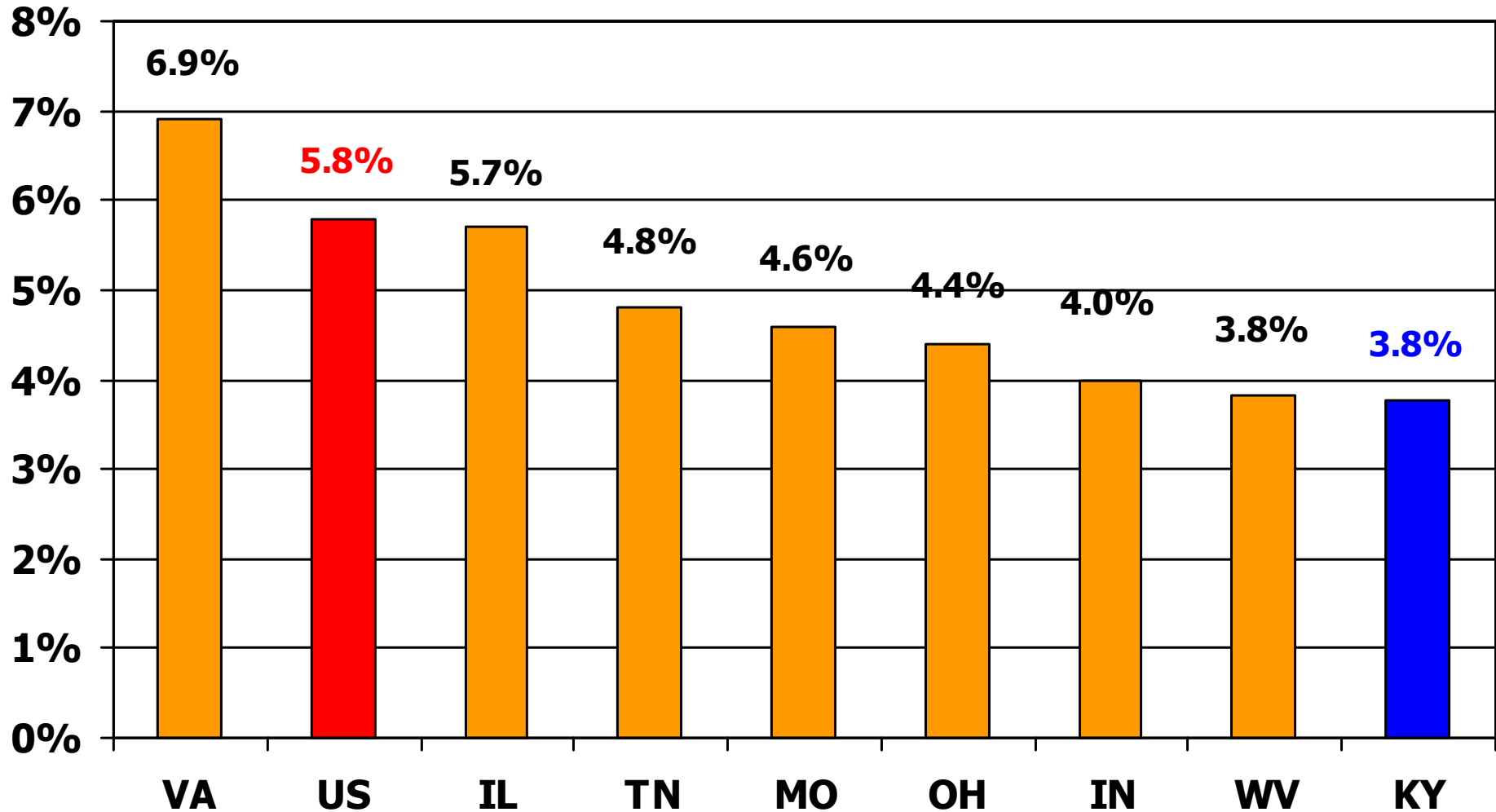


General Fund Receipts

FY 75 - 06*



Change in State Tax Revenue FY95 to FY01 (Annual Average)

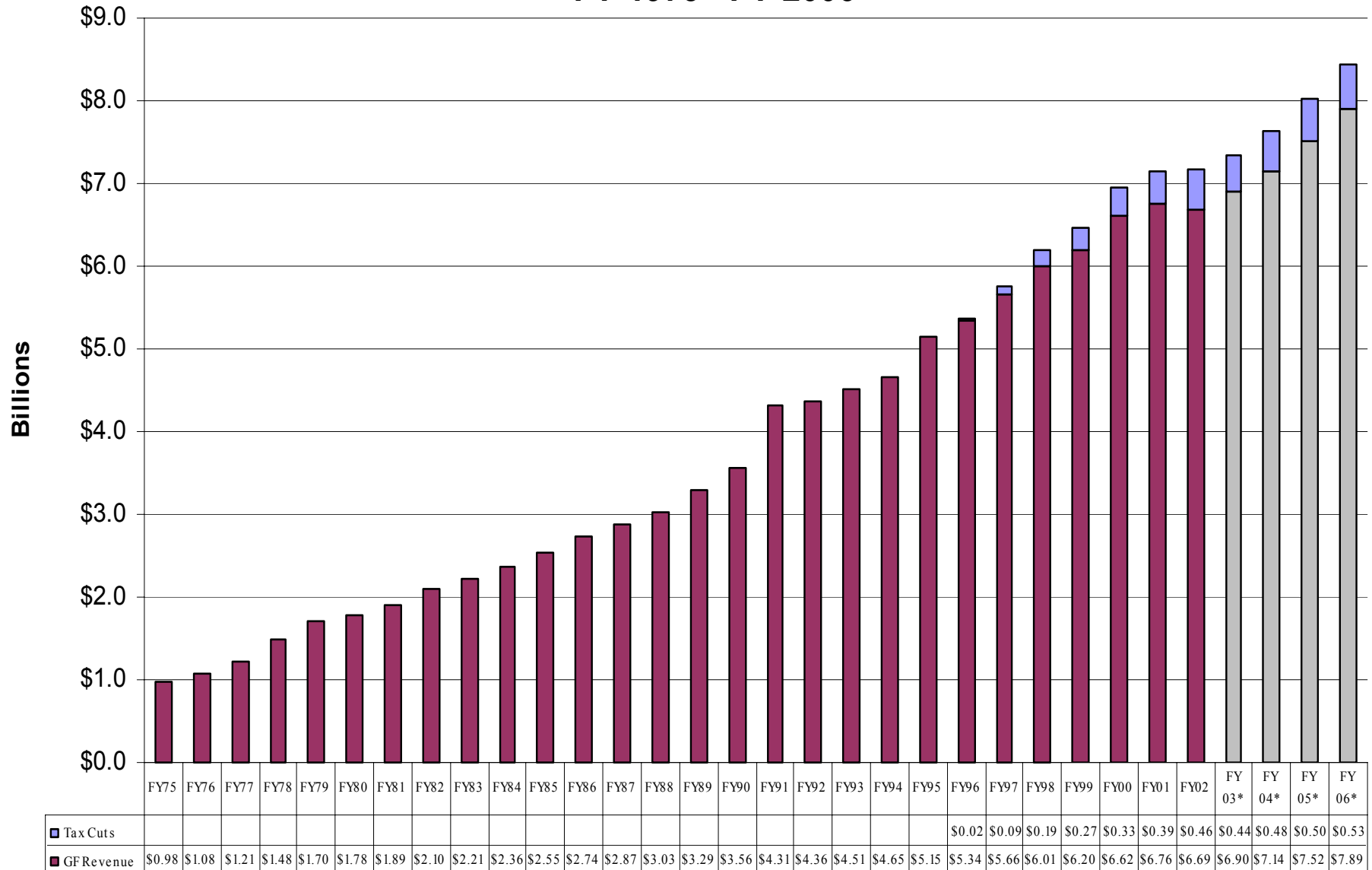


“Tax Revenue” includes both General Fund and Road Fund.

Source: U.S. Bureau of Census

General Fund Receipts and Tax Cuts

FY 1975 - FY 2006*



*FY 03 - FY 06 CFG as of 11/15/02

Numbers include Tobacco Receipts



Summary of Tax Reductions

- **\$349 Million Loss to the General Fund by FY 04**
 - **Income Taxes** (private pension exemption, inheritance tax exemption, raised standard deduction, health ins., long term care)
 - **Automobile Property Taxes**
 - **Business Taxes** (income, sales, intangible property, license)
 - **Provider Tax** (Impacts General Fund on Expenditure Side)
- **\$136 Million Loss to Other Funds and Local Govt.s**
 - **Motor Vehicle Usage Tax**
 - **Local component of auto property tax**
 - **Unemployment Insurance Tax**



Consensus Forecast

Official

FY '03

FY'04

6,768.2

7,033.4

Growth

3.2%

3.9%

Planning

FY '05

FY '06

7,408.6

7,782.0

Growth

5.3%

5.0%

Estimated General Fund Budget Shortfall

FY 03 - FY 04

\$Millions

	FY 03	FY 04
Revenues		
Dec. 2001 Official Consensus Forecasting Revenue Estimate	\$ 6,937.90	\$ 7,219.60
Nov. 2002 Official Consensus Forecasting Revenue Estimate	\$ 6,768.20	\$ 7,033.40
CFG Revenue Shortfall	\$ (169.70)	\$ (186.20)
Other Revenue Adjustments	\$ (30.10)	\$ (16.90)
Total Revenue Shortfall	\$ (199.80)	\$ (203.10)
Budget		
Plus Necessary Government Expenses	(\$15.00)	(\$15.00)
Plus Dept. of Education Budget Shortfall	(\$56.40)	(\$59.60)
Less Possible One-Time Funds Identified	\$120.00	
Plus Campaign Finance Funds	\$7.00	\$2.00
Plus No Carryforward as Planned		(\$79.50)
Plus Shortfall of Fund Transfers (Planned Transfers of \$81.4 million in HB 1 will be \$71.54)		(\$9.86)
Total Budget Shortfall	\$ (144.20)	\$ (365.06)
Other Expenditure Shortfalls		
Corrections	\$ 6.00	\$ 11.00
Medicaid (Estimated Total Funds Shortfall of \$450 million)	\$ -	\$ 135.00



Cutback Implications

	FY03	FY04
<i>Impact of Across-the-Board Cuts</i>		
Excluding Debt Service	2.1%	5.2%
Excluding Debt Service and K-12 Education	3.7%	9.1%
Excluding Debt Service, K-12 Education, and Corrections	3.9%	9.9%
Excluding Debt Service, K-12 Education, Corrections, and Medicaid	5.0%	12.4%
Excluding Debt Service, K-12 Education, Corrections, Medicaid, and Postsecondary	8.1%	20.5%



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